Supreme Court, U.S.
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No. 98-1572

IN THE

Supreme Court of the United States

OCTOBER TERM, 1998

M3 SYSTEMS,

Petitioner,

—v.—

C.R. BARD, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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PARTIES TO THE PROCEEDING

The names of all parties in the court whose judgment is sought to be reviewed appear in the caption of petitioner's conditional cross-petition for writ of *certiorari*.

Respondent is C.R. Bard, Inc. ("Bard"). Pursuant to Supreme Court Rule 29.6, respondent states that it has no parent company or subsidiaries.

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M3 SYSTEMS, *Petitioner,*

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RESPONDENT'S BRIEF IN OPPOSITION

I. STATEMENT OF THE CASE

M3 premises its conditional cross-petition for writ of *certiorari* on an alleged conflict between the Ninth and Federal Circuits regarding the evidence necessary to prove "sham" litigation antitrust liability (Pet. at 11-14) and, on the contention that the Federal Circuit's "newly-announced standard" would allow patent plaintiffs to "avoid all possibility of antitrust liability for bad faith patent enforcement." Pet. at 15-17. M3's arguments are completely without merit.

The Federal Circuit properly applied this Court's "objectively baseless" standard for a "sham" litigation set forth in *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993) (*"PRE"*). The subjective standard from the old Ninth Circuit *Handgards* cases, which M3 resurrects to create a "conflict", was specifically rejected by the Court in *PRE*, and has been completely disregarded by subsequent Ninth

Circuit decisions. Further, the so-called "newly-announced standard" which M3 criticizes is based on an inaccurate characterization of the Federal Circuit's holding. M3 presents the Court with no compelling reason why its conditional cross-petition for writ of *certiorari* on the sham litigation issue should be granted.

A. *PRE*'s "Objectively Baseless" Standard For A Sham Litigation

In *PRE*, 508 U.S. at 60-61, the Court provided the standard for finding antitrust liability based on the commencement of a "sham" litigation:

> We now outline a two-part definition of "sham" litigation. First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. . . . Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of our definition of sham, the court should focus on whether the baseless lawsuit conceals "an attempt to interfere *directly* with the business relationships of a competitor". . . . (citation omitted) (emphasis in original).

Further elaborating on the two-part definition, the Court stated:

> This two-tiered process requires the plaintiff to disprove the challenged lawsuit's *legal* viability before the court will entertain evidence of the suit's *economic* viability.

Id. at 61 (emphasis in original).

In arriving at this "two-part definition," the Court traced the development of the standard for determining immunity from antitrust liability. *Id.* at 56-60. The Court noted that an exception to antitrust liability for restraint of trade based upon immunity for "political activity" was first recognized in *Eastern Railroad Presidents Conf. v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961) ("*Noerr*"). *See PRE*, 508 U.S. at 56. The Court noted that *Noerr* withheld immunity when the political activity "'is a mere sham to cover . . . an attempt to interfere directly with the business relationships of a competitor.'" *Id.* (quoting *Noerr*, 365 U.S. at 144). The *PRE* Court then acknowledged that *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972) extended *Noerr* to cover the commencement of litigation. 508 U.S. at 57:

> We left unresolved [in *California Motor Transport*] the question presented by this case—whether litigation may be sham merely because a subjective expectation of success does not motivate the litigant. We now answer the question in the negative and hold that *an objectively reasonable effort to litigate cannot be a sham regardless of subjective intent.* (emphasis added) (footnote omitted).

The *PRE* Court further observed that the objective standard was consistent with its earlier decisions. *Id.* at 58-60.

The Ninth Circuit found that the antitrust defendant, Columbia, had probable cause to bring its lawsuit. *Columbia Pictures Indus., Inc. v. Professional Real Estate Investors, Inc.*, 944 F.2d 1525, 1531-32 (9th Cir. 1991). This Court held that the finding of probable cause precluded a conclusion that the litigation was objectively baseless. *PRE*, 508 U.S. at 63:

> Under our decision today, therefore, a proper probable-cause determination irrefutably demonstrates that an antitrust plaintiff has not proved the objective prong of the sham exception and that the defendant is accordingly entitled to *Noeer* immunity.

The Court supported the holding of the Ninth Circuit by acknowledging that the undisputed facts showed that Columbia enjoyed a valid copyright and noted that, under the holdings of two other circuit courts (the Third and the Seventh Circuits), Columbia may have prevailed on its legal theory. *Id.* at 64-65.

B. Evidence Presented At Trial Shows That M3 Infringed Bard's Patent

As the Federal Circuit observed, the "totality of the evidence" presented at trial by M3 in an attempt to show that Bard had engaged in "sham" litigation consisted of the testimony of a Bard engineer who did not feel that the original M3 needle infringed Bard's U.S. Patent No. RE 34,056 ("the '056 patent"), and of other Bard employees who told the engineer that M3 modified its original needle to a design that did not infringe (M3's current design). 55a-56a. There was no evidence that these employees had ever read the '056 patent or were knowledgeable regarding an analysis of infringement under the doctrine of equivalents. 56a. *See generally Warner Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997).

In contrast to the statements by Bard's employees, M3's own president and expert witnesses conceded infringement of Bard's '056 patent. For example M3's

president testified that the structure of M3's original needle met every claim element in asserted Claims 9-12 and 21-23 of the '056 patent. A7270-73. Additionally, M3's patent expert admitted that the original needle infringed Claim 21 of the '056 patent. A8603-04. It was also not disputed that M3's current needle is identical to the original infringing needles and meet every element of Claim 21 of the '056 patent except that the current needle does not have "flange means for coupling for forward and rearward movement" as required by the claim. M3's president also testified that the current needle has the same function, works in the same way, and accomplishes the same result as the original infringing needle. A7278; A7293-94. Further, M3's technical expert testified that the original and current needles are interchangeable. Clearly, substantial and convincing evidence was presented at trial, much of it stemming from M3's own admissions, demonstrating that M3's original and current needles infringe at least Claim 21 of Bard's '056 patent.

C. The Federal Circuit's Decision Properly Applied The *PRE* Standard On Sham Litigation

The Federal Circuit analyzed the sham litigation question in accordance with the standard set forth by the Court in *PRE* (54a):

> The Supreme Court in *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc. ("PRE")* established the two-part criteria of "sham litigation": (1) the lawsuit must be objectively meritless such that "no reasonable litigant could expect success on the merits" and (2) it must be found that "the baseless lawsuit conceals 'an

> attempt to interfere *directly* with the business relationships of a competitor.'" *508 U.S. 49, 60, 26 USPQ2d 1641, 1646 (1993)* (emphasis in original) (quoting *Eastern R.R. President's Conf. v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144 (1961)).

The Federal Circuit further relied upon *PRE* for the proposition that lack of success by a patentee in bringing suit does not, by itself, demonstrate that the patentee had engaged in sham litigation. 55a. The Federal Circuit observed that the only evidence presented by M3 at trial (*i.e.*, the opinion of a Bard engineer and other Bard employees) "does not constitute substantial evidence that this litigation was objectively meritless and brought in bad faith." 55a-56a. For example, the Federal Circuit noted that the Bard engineer testified that he did not know whether the individuals who thought that M3's current needles did not infringe Bard's '056 patent had ever read the patent, or whether they were familiar with the concept of infringement under the doctrine of equivalents. 55a-56a.

PRE requires an antitrust plaintiff first prove that the defendant's lawsuit was "objectively baseless" (*i.e.*, no reasonable *litigant* could expect success on the merits). *PRE*, 508 U.S. at 60; *see supra*, pp. 2-3. Thus, the *PRE* standard focuses on the "challenged lawsuit's *legal* viability." *Id.* at 61 (emphasis in original). The question of patent infringement involves a comparison of the properly construed patent claim to the accused device. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 976 (Fed. Cir. 1995) (*in banc*), *aff'd*, 517 U.S. 370 (1996). A determination of patent infringement must also include an assessment of whether the accused device infringes the asserted patent under the doctrine of equivalents. *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 25-

28 (1998).

The only evidence presented by M3 on the sham litigation issue was the testimony of the Bard employees, which was based neither upon a reading of the '056 patent, nor upon an assessment of infringement under the doctrine of equivalents. 55a-56a. Under the Court's holding in *PRE*, these statements could not constitute evidence as to the *legal* viability of Bard's lawsuit. *See PRE*, 508 U.S. at 61. Thus, the Federal Circuit was correct in concluding that M3 failed to present sufficient evidence to meet *PRE's* "objectively baseless" requirement for sham litigation.

D. The Ninth Circuit's *Handgards* Decisions Have Been Effectively Overruled By *PRE*

The Ninth Circuit addressed the issue of antitrust liability resulting from commencement of a patent infringement action in "bad faith" in two related decisions. In *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) ("*Handgards I*"), the Ninth Circuit reversed a jury verdict finding antitrust liability, and held that because there is a presumption of good faith on the part of litigants, a finding of bad faith must be based upon clear and convincing evidence rather than a mere preponderance of the evidence. *Handgards I*, 601 F.2d at 996.

In *Handgards, Inc. v. Ethicon Inc.*, 743 F.2d 1282 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985) ("*Handgard II*"), the Ninth Circuit affirmed the jury verdicts of the district court that had been returned after remand of *Handgards I*, finding sufficient evidence of bad faith had been presented to meet the clear and convincing standard. *Handgards II*, 743 F.2d at 1292-93. The Court

in *Handgards II*, 743 F.2d at 1294-95, found that its standard for clear and convincing evidence of bad faith was consistent with the standard for "sham" litigation set forth by the Court in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972):

> We believe that *Handgards I* established a standard that embodies both the *Noerr-Pennington* immunity and the sham exception. There we held that "the jury should be instructed that a patentee's infringement suit is presumptively in good faith and that this presumption can be rebutted only by clear and convincing evidence [of bad faith]." 601 F.2d at 996. The good faith presumption affords the equivalent of the *Noerr-Pennington* immunity while the requirement of bad faith litigation easily affords the equivalent of the sham exception. . . . Thus, to require a jury instruction as to *Noerr-Pennington* immunity and the sham exception would be duplicative. (footnote and citation omitted).

The "bad faith" which was referred to in both *Handgards I* and *Handgards II* was clearly a subjective standard. *See Handgards II*, 743 F.2d at 1289 ("All that is required for finding of the bad faith in the context of an infringement suit is that the patent holder, Ethicon, *knew* that its patent was invalid.") (emphasis added); *Handgards I*, 601 F.2d at 993 ("'Bad faith', however, is a subjective state of mind . . . ."). Since the Court in *PRE*, explicitly excluded a purely subjective standard for "sham" litigation, the *Handgards* cases, to the extent that they require *only* a showing of subjective bad faith, are not consistent with the *Noerr-Pennington* immunity, and have

been overruled by *PRE*[1]. *PRE*, 508 U.S. at 60.

Notably, the Ninth Circuit has neither relied upon the *Handgards* cases, nor applied a purely subjective test to "sham" litigation cases. Rather, the Ninth Circuit has consistently applied an objective test. *See, e.g., Columbia Picture Indus., Inc. v. Professional Real Estate Investors, Inc.*, 944 F.2d 1525, 1530-32 (9th Cir. 1991), *aff'd*, 508 U.S. 49 (1993). *See also Amarel v. Connell*, 102 F.3d 1494, 1518-19 (9th Cir. 1996).

E. M3's Conditional Cross-Petition For Writ Of Certiorari Should Be Denied

M3 suggests in its conditional cross-petition that a "newly-announced standard of proof" "in direct conflict" with *Handgards II* was created by the Federal Circuit which, as a "practical matter would make it impossible to prove a sham litigation claim." Pet. at 10. According to M3, the Federal Circuit created a "new rule" that an antitrust claim based upon "bad faith patent enforcement can be proved only by direct evidence that a representative of the patentee having specialized legal training . . . knew that the underlying infringement claim was baseless." Pet. at 10-11.[2] M3 misleadingly refers to the issue as "bad faith patent enforce-ment," attempting to use this term

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[1] Since the objective versus subjective standard was not disputed in either *Handgards* case, comments in either of those cases regarding the subjective standard are best considered merely dicta.

[2] M3 misleadingly frames the issue as "bad faith patent enforcement" by attempting to use this term interchangeably with "sham" litigation. *See, e.g.*, Pet. at 11. To the extent "bad faith patent enforcement" refers to an antitrust cause of action based solely on a defendant's subjective "bad faith" in commencing a patent lawsuit, such a cause of action is not recognized by *PRE*. *PRE*, 508 U.S. at 60.

interchangeably with "sham" litigation. *See, e.g.*, Pet. at 11. To the extent that "bad faith patent enforcement" refers to an antitrust cause of action based solely on a defendant's subjective "bad faith" in commencing a patent lawsuit, such cause of action does not exist. *PRE*, 508 U.S. at 60. M3 maintains that the Federal Circuit's decision conflicts with the holding of *Handgards II* that a plaintiff need not show knowledge of the lawsuit's baselessness by someone with legal training. Pet. at 12 (citing *Handgards II*, 743 F.2d at 1290 ("We refuse to establish a requirement that Handgards had to prove that the patent attorney knew the Gerard patent was invalid.")).

M3 next contends the Federal Circuit's decision would shift the burden of proof to an antitrust *plaintiff* to present an opinion of defendant's counsel to prove its *prima facie* case. According to M3, counsel's opinion is an affirmative defense to a charge of malicious prosecution which the *defendant* has the burden of proof. Pet. at 14. Thus, since a defendant can always assert attorney-client privilege to prevent an antitrust plaintiff from obtaining counsel's opinion, M3 erroneously concludes that the Federal Circuit's rule effectively prevents any plaintiff from proving its case of "bad faith patent enforcement." Pet. at 17.

M3's contentions, however, are without legal and factual support and are premised upon an inaccurate analysis of the Federal Circuit's decision.

II. REASONS FOR DENYING RESPONDENT'S CROSS-PETITION

A. There Is No Conflict Between The Federal Circuit And Ninth Circuit Regarding "Sham" Litigation

The Federal Circuit's decision was based on a proper application of the *PRE* "two-part definition" for "sham" litigation. 54a. Since the Ninth Circuit is obliged to, and does, follow the Court's precedent in *PRE*, there can be no conflict between the two Circuit Courts on this issue. *See Amarel v. Connell*, 102 F.3d 1494 (9th Cir. 1996).

The first part of the *PRE* standard requires a plaintiff to demonstrate that defendant's lawsuit was "objectively baseless" which requires an assessment of the "lawsuit's *legal* viability" from the perspective of a "reasonable litigant." *PRE*, 508 U.S. at 60-61. It is not disputed that the employee statements relied upon by M3 were made (a) without reading Bard's '056 patent, (b) without analyzing the asserted patent claims in light of the patent specification and prosecution history, and (c) without assessing the infringement issue under the doctrine of equivalents. 55a-56a. Since reading the asserted patent and considering the issue of the doctrine of equivalents are fundamental to a proper infringement analysis, the statements relied upon by M3 reveal nothing about the objective legal basis underlying Bard's lawsuit, nor do they shed any light on what a "reasonable litigant" would think about Bard's claims *See PRE* at 60-61. The Federal Circuit's decision finding these statements legally insufficient is entirely consistent with the *PRE* standard.

In contrast, the court in *Handgards II* was assessing a defendant's good faith belief under a purely *subjective* test. *Handgards II*, 743 F.2d at 1289. Under such an analysis, evidence of any employee's knowledge, with or without a legal basis for such knowledge, would be probative. *Id.* at 1290. However, the Court in *PRE* specifically rejected a purely subjective standard for sham litigation.

> In sum, fidelity to precedent compels us to reject a purely subjective definition of "sham." The sham exception so construed would undermine, if not vitiate, *Noerr*.

PRE, 508 U.S. at 60. Since the *Handgards* subjective standard has been overruled, it can no longer stand as a conflict with the Federal Circuit's holding.

B. The Federal Circuit's Decision Does Not Shift The Burden Of Proof In "Sham" Litigation Cases

The Federal Circuit, consistent with the *PRE* precedent, held that statements by Bard employees lacking a legal basis, alone, could not provide sufficient evidence to show that Bard's lawsuit was "objectively baseless" from the perspective of a "reasonable litigant." 55a-56a. *See PRE*, 508 U.S. at 60-61. Contrary to M3's contentions, the Federal Circuit did *not* hold that statements from employees with a legal basis constituted the *only* evidence which could be used to prove "sham" litigation. *See, e.g.*, Pet. at 10. The Federal Circuit did not address the sufficiency of any other type of evidence that could be used to show that a lawsuit was "objectively baseless" since M3 offered no such evidence. 55a-56a. The Federal Circuit's

decision also does not infer that direct evidence of the lack of technical merit of a lawsuit, such as a complete lack of evidence or legal basis for the defendant's claims, could not prove sufficient to meet the objectively baseless standard. *Cf. PRE*, 508 U.S. at 66-65 (lawsuit not objectively baseless where undisputed facts showed that defendant enjoyed a valid copyright and that, under the holdings of two other circuit courts, defendant might have prevailed on its legal theory). The Federal Circuit's decision clearly does not limit an antitrust plaintiff to reliance upon a defendant's opinions of legal counsel to support a sham litigation claim.

M3's attempt to draw an analogy between malicious prosecution and "sham" litigation misses the mark. Pet. at 14-15. Opinions of counsel that might form the basis for a defendant's affirmative defense in a malicious prosecution action are part of a completely different legal regime than the legally-grounded employee statements that might form the basis of a plaintiff's case-in-chief when alleging antitrust liability based on "sham" litigation. A plaintiff in a sham litigation case has the initial burden of proving that the defendant's lawsuit was *objectively* baseless. *PRE*, 508 U.S. at 60. The Federal Circuit held that M3 failed to meet its initial burden of proof. 56a. The Federal Circuit's decision, at most, merely *implies* that statements from defendant's employees, *which have a legal basis* and which state that defendant's lawsuit *did not have* merit, may be sufficient to meet that burden. *See* 54a-56a. The Federal Circuit's decision, however does not limit the evidence which can or cannot be sufficient to prove or rebut an inference of *subjective* intent. M3's claim that the Federal Circuit shifted an evidentiary burden, therefore, is completely without merit.

CONCLUSION

For these reasons, the conditional cross-petition for a writ of *certiorari* should be denied.

Respectfully submitted,

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